Australian Eagle
Asset Management

Australian Eagle Trust (Long-Short Fund) Quarterly Report – December 2024

Portfolio Performance

As at 31 December 2024	3mth	6mth	1yr	3yr p.a.	5yr p.a.	7yr p.a.	Net Return S/I p.a.
Aust. Eagle Trust*	**4.28%**	**5.29%**	**6.78%**	**4.51%**	**10.32%**	**11.86%**	**13.99%**
S&P/ASX 100 Acc**	-0.78%	7.10%	11.74%	8.20%	8.48%	8.93%	9.96%
Out/(under) performance	5.06%	-1.81%	-4.96%	-3.69%	1.85%	2.93%	4.02%

Performance is net of fees and expenses, *Inception date 1 July 2016, **Performance benchmark

Past performance is not an indicator of future performance

Portfolio & Market Commentary

The Fund returned 4.28% after fees for the December 2024 quarter, compared to a fall by the benchmark of -0.78%, resulting in outperformance of 5.06%. After a difficult recent period, it was pleasing for the portfolio to finish the calendar year on a positive note. Both Long and Short portfolios contributed with overweight long exposures enjoying a strong run after announcing sound results while short stocks suffered from stock specific issues.

In addition to strong stock specific performance, the big banks suffered from profit taking in December which helped overall quarterly performance given the portfolio's underweight exposure. A similar situation also occurred with the portfolio's underweight exposure to BHP which also fell due to China weakness. These underweight exposures to big banks and BHP will continue to be held as our portfolio stocks still represent superior and improving quality from a risk and fundamental perspective.

Global markets were mostly up, driven by Trump's election win, two 25bps rate cuts by the US Fed and numerous Chinese stimulus announcements. However, the US economy's resilience and the relatively sticky inflation numbers prompted a hawkish tone from the Fed Chairman, signalling a slower pace for future rate cuts. The longer-term US bond yields rose throughout the quarter, causing the yield curve to steepen. China unveiled plans for easy monetary policy and a 3 trillion Chinese Yuan special treasury bond issue to address weak consumer demand, local government debt and the property crisis. Iron ore prices fell to $101/t after disappointing Chinese stimulus, while oil prices recovered slightly but declined to US$71/bbl due to China's economic struggles and increased global supply.

The Long portfolio contributed to relative performance with stock selection providing a timely boost. TechnologyOne reported strong momentum in the UK where they are gaining market share in the higher education sector. QBE's trading update confirmed mid-single digit gross written premium growth while catastrophe claims were notably lower compared to 2023 despite 2 large hurricanes occurring recently. Xero announced a solid result in November with management delivering on earlier promises of keeping costs low while generating 25% revenue growth.

The Short portfolio also contributed as resources stocks experienced volatility stemming from economic weakness in China while other contributors experienced a continuation of stock specific issues. Mineral Resources remained under pressure from low lithium and iron ore prices, a stretched balance sheet and uncertainty over the future direction of management. Iluka Resources has continued to experience difficulties with the latest update showing the capital cost for its Eneabba rare earths refinery having blown out from $1.2bn to an estimated $1.7-1.8bn. Domino's Pizza underperformed as the company has failed to successfully navigate the difficult period post-COVID, resulting in their long-serving CEO being replaced while sales are still trending negatively.

The portfolio remains well balanced in terms of exposures, given the uncertainty over interest rates, geopolitical issues and commodity prices. The team will continue to diligently apply the Australian Eagle investment process of uncovering companies with a medium-term change thesis and are comforted by growing market appreciation of the positive business momentum of our long portfolio stocks.

Portfolio Highlights

Positives

TechnologyOne Ltd (Long) – The share price rose after a strong FY24 result, highlighting the success of the SaaS+ strategy and UK division. Annualised Recurring Revenue (ARR) grew 20%, highlighted by new client wins in the UK education sector and continued Australian division progress. Management reiterated their long-term goal of doubling their ARR by FY30.

QBE Insurance Group Ltd (Long) – The share price outperformed as short-term bond yields remained elevated for the quarter. The company also reconfirmed their FY24 guidance, supported by favourable catastrophe experience, continued mid-single digit gross written premium growth and solid investment book performance.

Mineral Resources Ltd (Short) – The share price fell throughout the month as both internal and external issues continued to plague the company. Despite taking steps to de-risk the balance sheet, the debt load remains high during this period of high interest rates. Low commodity prices remain a near term headwind while uncertainty over the future management team remains a concern.

Negatives

Pilbara Minerals Ltd (Long) – The share price underperformed due to MSCI rebalancing in November and stubbornly low lithium prices. Production was paused at its Ngungaju plant in response to current lithium market conditions which will help preserve the company's net cash position. Low-cost production and production growth will provide strong returns on capital once commodity prices recover.

Qantas Ltd (Short) – The share price rose despite finishing the $400m buyback early in December as the travel industry experienced a positive sentiment shift in the lead up to the Christmas period. The concerns over its large capital expenditure bill for new aircraft as well as its highly geared balance sheet has been overlooked by the market for the moment.

Block Inc (Short) – The share price rose after President-elect Trump's election victory drove the bitcoin price to record highs. The company is undergoing some large-scale organisational and operational changes, attempting to connect their Cash App and Square ecosystems while keeping costs down to reach their Rule of 40 target by 2026.

Portfolio Changes

Increased Exposure

AGL Energy Ltd (+3.00%; Exit Short): A vertically integrated Australian energy generator and retailer. The company's position in the short portfolio reached a time stop and was subsequently exited.

Lynas Rare Earths Ltd (+2.25%; Exit Short): A multinational rare earths producer. The company has de-risked its operations, transitioning its cracking and leaching operations from Malaysia to Kalgoorlie while adding heavy rare earths capabilities. The balance sheet is also in net cash position despite the current low-price environment stemming from China's sector dominance.

Web Travel Group Ltd (+2.25%; Entry Long): A B2B platform provider connecting hotels with tour operators and other travel companies. After successfully demerging the Webjet B2C business, the company announced a $150m on-market share buyback to support plans to double their total transaction volume to $10bn by FY30.

Decreased Exposure

Ramsay Healthcare Ltd (-3.25%; Exit Long, Entry Short): A multinational private hospitals owner and operator. After initially showing signs of recovery earlier in 2024, a stretched balanced sheet as well as margin pressure from higher input costs and inadequate private health insurance reimbursement has meant the company's turnaround progress is taking longer than expected.

Ampol Ltd (-2.50%; Entry Short): A wholesale and retail fuel supplier and refiner. The company's weakening cashflows coupled with its highly geared balance sheet in this high interest environment is putting pressure on shareholder returns. Refining margins are still at recent lows while its EV charging infrastructure rollout is facing multiple delays.

Paladin Energy Ltd (-2.00%; Short): A uranium miner. The company downgraded its production guidance for FY25 due to lower ore grades and water supply disruptions. While their operations at Langer Heinrich mine are forecast to improve in 2H25, execution risk remains after only restarting production in December 2023 following a 5-year care & maintenance hiatus due to low uranium prices.

Quarter-End Position & Portfolio Exposures

As at 31 December 2024, the Fund had net exposure of 95.5% and gross exposure of 196.1% to equities. Cash was 4.5%.

Major portfolio exposures were to medical devices & services and certain financial services with less portfolio weight in major banks and real estate.

Stock Highlight: SILEX Systems Ltd (SLX) – Long Position

This stock highlight is not an investment recommendation and is intended to be read in the context of the Australian Eagle portfolio.

Powering Up: SILEX's Path to Commercialisation and Profitability

As with many other portfolio stocks, our familiarity with SILEX Systems dates back to the early 2000s. During the first uranium boom, we observed the company's share price rise dramatically, from approximately $1 to over $13 in 2007, coinciding with uranium prices surging from $17 to nearly $140 per pound.

Our curiosity was piqued by SILEX's ownership of unique, third-generation uranium enrichment technology, which is protected under a state-secret perpetual patent and structured to deliver minimum 7% royalties to SILEX. However, the subsequent collapse of the uranium market compounded by the Fukushima nuclear disaster, stalled the development of the technology.

Fast forward several years, several objective information points came together to warrant renewed interest in the company. SILEX achieved a significant milestone by successfully raising $40 million to advance the development of its groundbreaking technology and pilot plant in the US through its 51% owned joint venture, Global Laser Enrichment (GLE), with Cameco, a leading global uranium producer. At the same time, the ratification of a deal with the US Department of Energy to enrich a large uranium tailings stockpile, alongside a global resurgence in nuclear energy interest, marked a pivotal turning point for the company. Furthermore, the signing of agreements with multiple US energy producers completed the mosaic of information that solidified our conviction to add SILEX Systems to the portfolio.

Looking ahead, SILEX has the potential to generate multiple revenue streams with the most immediate being through the commercialisation of its uranium enrichment technology. Once operational, the production plant aims to enrich up to 5 million pounds of uranium annually at a cost of approximately US$30 per pound—a production scale comparable to world-class uranium mines. As previously mentioned, SILEX also owns the right to royalties for use of the proprietary enrichment technology which has the potential to generate up to US$80 million per year. The success and commercialisation of SILEX carries dual significance: a critical driver of value for shareholders but also a matter of strategic interest for the US government.

While the prospects are undeniably exciting, we remain mindful of the challenges inherent in bringing new technologies to market, particularly in terms of timing and achieving critical milestones. As shareholders, we will also closely monitor the company's progress against key objectives, which will be essential indicators of its path toward profitability.

Australian Eagle Trust - Net Monthly Returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
2016/17	10.52%	0.99%	-1.08%	-4.14%	2.94%	5.16%	-0.25%	5.15%	-0.06%	1.94%	1.31%	0.36%	**24.48%**
2017/18	-1.70%	5.27%	0.20%	5.35%	1.05%	1.10%	2.41%	3.08%	-3.86%	4.18%	2.34%	3.60%	**25.13%**
2018/19	-1.09%	1.45%	-2.24%	-7.62%	-0.53%	2.23%	5.98%	3.70%	1.76%	3.65%	2.15%	6.57%	**16.27%**
2019/20	4.00%	-2.46%	-0.18%	-0.34%	3.80%	-1.78%	5.45%	-6.50%	-16.24%	8.32%	9.97%	3.34%	**4.59%**
2020/21	3.60%	1.83%	-3.53%	4.35%	-0.62%	0.00%	0.13%	1.86%	1.45%	7.26%	3.63%	4.02%	**26.24%**
2021/22	3.37%	3.02%	-1.76%	2.64%	0.63%	3.25%	-9.77%	-0.47%	9.88%	2.54%	-3.88%	-4.39%	**3.73%**
2022/23	1.92%	5.56%	-3.40%	3.69%	5.96%	-3.57%	1.99%	-0.86%	1.66%	2.19%	-4.77%	1.25%	**11.51%**
2023/24	-0.32%	1.79%	-1.21%	-3.92%	3.22%	3.75%	1.19%	3.22%	0.41%	-3.94%	-0.08%	0.74%	**4.58%**
2024/25	3.40%	-2.52%	0.17%	0.41%	6.13%	-2.14%							**5.29%**

Past performance is not an indicator of future performance. Net monthly returns are calculated using exit prices after taking into account all of the Australian Eagle Trust's ongoing fees as disclosed in the PDS and assuming reinvestment of distributions. No allowance has been made for entry fees, the buy sell spread or taxation.

About the Australian Eagle Trust Long-Short Fund

Australian Eagle Asset Management Ltd is an Australian boutique wholesale fund manager specialising in Australian equities. Australian Eagle's investment process seeks to deliver significant outperformance by identifying mispriced stocks with changing growth profiles and building concentrated portfolios of those stocks.

The Australian Eagle Trust Long-Short Fund aims to outperform the Australian equity market over a period of 5 years by allowing clients to access Australian Eagle's demonstrated historical strength in constructing Australian share portfolios applied to a long-short product.

This fund is appropriate for investors with a "Very High" risk and return profiles. A suitable investor for this fund is prepared to accept high risk in the pursuit of capital growth with a medium or long investment timeframe. Investors should refer to the TMD for further information.

How to Invest

The Australian Eagle Trust Long-Short Fund is only available to investors via the Australian Eagle Trust Product Disclosure Statement (PDS). You should consider the PDS prior to making any investment decisions. The PDS and target market determination can be obtained by calling 02 8252 7559 or visiting our website http://austeagle.com/how-to-invest/ for the PDS or https://documents.feprecisionplus.com/tmd/pct/tmd/p9iy-alr2783au.pdf for the target market determination.

The PDS offers investors the opportunity to invest a minimum of $20,000 in the Australian Eagle Trust (the Fund). The Trustee has the discretion to waive or vary this minimum requirement. The offer of units in the Fund are available to investors who are resident in either Australia or New Zealand. Investors who are not residents in Australia can invest in the Fund where they are permitted by law to do so. The Trust Company (RE Services) Ltd ABN 45 003 278 831 AFSL 235150, part of Perpetual Limited, is the responsible entity and issuer of units in the Australian Eagle Trust ARSN 632 568 846. The Investment Manager of the Fund is Australian Eagle Asset Management Pty Ltd ABN 89 629 484 840, a corporate authorised representative of Alleron Investment Management Pty Ltd AFSL 278856 and a corporate authorised representative of Montgomery Investment Management Pty Ltd AFSL 354564.